Simon Property Group (SPG)

Updated February 13th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$109	**5 Year CAGR Estimate:**	8.6%	**Market Cap:**	$35.85B
Fair Value Price:	$116	**5 Year Growth Estimate:**	3.0%	**Ex-Dividend Date:**	03/23/21[1]
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.2%	**Dividend Payment Date:**	04/22/21[2]
Dividend Yield:	4.8%	**5 Year Price Target**	$134	**Years of Dividend Growth:**	N/A
Dividend Risk Score:	D	**Retirement Suitability Score:**	B	**Last Dividend Increase:**	N/A

Overview & Current Events

Simon Property Group is a real estate investment trust (REIT) that was formed in 1993. The trust focuses on retail properties, mainly in the US, with the goal of being the premier destination for high-end retailers and their customers. The trust has interests in about 230 different properties that amount to nearly 200 million square feet of leasable space. Simon produces about $4.5 billion in annual revenue and has a market capitalization of $35.85 billion.

On February 8th, 2021, Simon reported its Q4 earnings for the period ending December 31st, 2020. Total revenues were $709 million, 20.3% lower vs. the comparable period last year, as the ongoing pandemic continued to adversely impact retail shopping, and hence the company's malls. As a result, FFO per share also declined by 26.6% compared to last year, coming in at $2.17. As of February 5th, 2021, the trust had collected 90% of its net billed rents from its U.S. retail portfolio for the second, third, and fourth quarters combined. Simultaneously, occupancy at the end of the quarter had recovered to 91.3%, indicating its tenant base's gradual return. During the year, the company acquired an 80% interest in "The Taubman Realty Group," suggesting that management remains highly confident in the future of malls, despite COVID-19's challenges and consumers' rapid shift towards online shopping.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
FFO/Shr	$6.89	$7.98	$8.85	$8.90	$9.86	$10.49	$11.21	$12.13	$12.37	$9.11	***$9.65***	***$11.19***
DPS	$3.50	$4.10	$4.65	$5.15	$6.05	$6.50	$7.15	$7.90	$8.20	$6.00	***$5.20***	***$6.64***
Shares[3]	294.0	310.0	310.0	311.0	309.0	313.0	311.0	309.0	306.0	316.0	***316.0***	***316.0***

Simon's FFO history has been quite resilient, seeing only a minor dip in profitability during the Great Recession. Funds from operations have since more than doubled. Simon's focus on high-end retailing has proven an immense source of strength in recent years, and we see that steady performance continuing. Recent years have seen a growth rate of ~6%, but given Simon's already-dominant position in the retail sector, the seemingly unstoppable rise of e-commerce crimping demand for physical stores, and how mature the current economic cycle is, it looks like Simon and other retail REITs will have a harder time with future FFO growth. That said, Simon is still the best retail REIT in the market by many metrics. Its occupancy rates remain high. It also charges more than $55 per square foot on average, which is tremendously high for the retail space. Simon has built a niche with high-end retailers over the years such that it has the most desirable spaces and developments and thus sees a virtuous combination of high occupancy and leasing rates.

The company was forced to cut its dividend to withstand its weaker performance caused by the pandemic, though we expect its growth to resume amid what seems to be a rather quick resumption in its operations. We expect FFO/share and DPS growth of 3% and 5%, respectively, going forward, reflecting the REIT's potential for growth in its square feet and lease rate, while still remaining prudent due to the headwinds surrounding the retail space against the growing e-commerce sales.

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[1] Estimate

[2] Estimate

[3] In millions

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/FFO	16.5	18.7	18.4	19	19.1	19.2	15.1	13.9	11.9	8.8	***11.3***	***12.0***
Avg. Yld.	3.1%	2.7%	2.9%	3.0%	3.2%	3.2%	4.2%	4.7%	5.6%	6.5%	***4.8%***	***4.9%***

Simon's valuation has been remarkably steady for much of the past decade, and today, at just 11.3 times FY2021's FFO estimates, the stock could be quite cheap. We believe a valuation of around 12 times its FFO better reflects the company's qualities while still reflecting the market's distaste and risks attached to mall REITs. Further, despite the recent cut, the stock's current yield of 4.8% still remains higher than its decade average, which income-oriented investors are likely to appreciate given the circumstances.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Payout	51%	51%	53%	58%	61%	62%	64%	65%	66%	66%	***54%***	***59%***

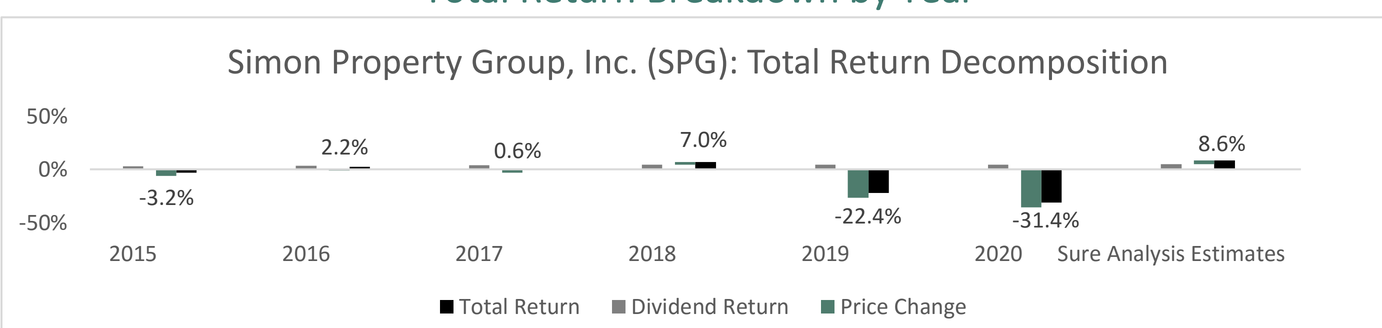
Simon's quality metrics have been very stable in the past decade as the trust has kept operating metrics such as balance sheet leverage and interest coverage in a fairly narrow range. Profitability has improved over time as the trust's strength has afforded it the ability to raise prices, but we believe most of the profitability gains have been made. Simon's lease pricing is already an industry-best and has stagnated in recent quarters, leading us to believe further margin gains from here will be challenging. The payout ratio should rise as Simon should be growing the dividend faster after its recent cut while still remaining quite well-covered.

Simon's competitive advantage is in its world-class portfolio of properties that allow it to charge industry-best leasing rates. Another advantage is its low cost of capital that comes from its A-rated balance sheet, enabling it to invest in ways that competitors cannot afford to. That being said, it is not immune to recession as it did just cut its dividend during the year amid, admittedly, a black swan event for the industry. However, despite the cut, its overall business held up fairly well during that period, already showing rapid recovery signs.

Final Thoughts & Recommendation

Overall, we forecast Simon to produce robust 8.6% total annualized returns in the coming years. We continue to rate the stock a buy as Simon offers investors an attractively priced stock with a high yield and dividend growth prospects ahead. While the balance sheet is A-rated, investors should remember that it did cut its dividend during the last recession and once again during the ongoing pandemic. That being said, its strong balance sheet, world-class management, and high-quality real estate portfolio, and the recent acquisition of Taubman should enable it to rebound fairly quickly once the current COVID-19 related headwinds pass.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	4306	4256	4544	4871	5266	5435	5539	5658	5,755	4,608
Gross Profit	3387	3456	3706	3988	4306	4464	4559	4650	4,734	3,720
Gross Margin	78.6%	81.2%	81.6%	81.9%	81.8%	82.1%	82.3%	82.2%	82.2%	80.7%
SG&A Exp.	282	291	319	355	350	366	338	334	185	121
D&A Exp.	1112	1301	1333	1286	1239	1328	1357	1350	1,394	---
Operating Profit	1943	2000	2189	2385	2669	2721	2802	2911	2,908	1,972
Operating Margin	45.1%	47.0%	48.2%	49.0%	50.7%	50.1%	50.6%	51.5%	50.5%	42.8%
Net Profit	1025	1434	1320	1409	1828	1839	1948	2440	2,102	1,113
Net Margin	23.8%	33.7%	29.0%	28.9%	34.7%	33.8%	35.2%	43.1%	36.5%	24.2%
Free Cash Flow	1560	1711	1860	1934	2004	2574	2862	2969	2,932	---
Income Tax	12	16	40	28	20	30	23	37	30	-4.6

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	26217	32587	33325	29532	30565	31104	32258	30686	31232	34790
Cash & Equivalents	799	1185	1691	612	701	560	1482	514	669	1012
Acc. Receivable	487	521	520	580	625	665	743	764	832	1237
Goodwill & Int.	296	507	376	312	276	285	209	151	96	---
Total Liabilities	20673	25694	26502	23581	25349	26144	28019	26889	28320	31310
Accounts Payable	1092	1374	1223	1260	1324	1214	1269	1317	1391	1312
Long-Term Debt	18446	23113	22670	20853	22417	22977	24564	23238	24096	26720
Total Equity	4605	5866	5805	5049	4428	4267	3643	3254	2484	2997
D/E Ratio	3.97	3.91	3.88	4.09	5.01	5.33	6.66	7.05	9.54	8.79

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	4.0%	4.9%	4.0%	4.5%	6.1%	6.0%	6.1%	7.8%	6.8%	3.4%
Return on Equity	21.8%	27.4%	22.6%	26.0%	38.6%	42.3%	49.3%	70.8%	73.3%	40.6%
ROIC	4.4%	5.3%	4.4%	5.0%	6.7%	6.6%	6.9%	8.7%	7.8%	3.9%
Shares Out.	294	310	310	311	309	313	311	309	306	309
Revenue/Share	14.67	14.04	14.65	15.68	16.98	17.38	17.78	18.27	18.69	149.2
FCF/Share	5.32	5.64	5.99	6.22	6.46	8.23	9.19	9.59	9.52	---

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.